

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018 SESSION

BAC2634 – FINANCIAL ACCOUNTING AND REPORTING

2

(All sections / Groups)

05 JUNE 2018

9.00 a.m – 12.00 p.m

(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

The summarised accounts of Lifestyle Empire Sdn Bhd for the year ended 31 December 2017 is as follows:

Statement of Profit or Loss for the year ended 31 December 2017

	RM
Revenue	754,000
Cost of sales	(450,000)
Gross profit	304,000
Distribution costs	(142,000)
Administration expenses	(76,000)
Income from operations	86,000
Finance costs	(6,000)
Loss on disposal	(15,000)
Profit before tax	65,000
Income tax expense	(16,000)
Profit for the year	49,000

Statement of Financial Position as at 31 December 2017

	2017	2016
	RM	RM
Non-current assets		
Property, plant and equipment	335,000	381,000
Long term investments	256,000	218,000
	591,000	599,000
Current assets		
Cash	161,600	96,800
Accounts receivable	193,600	146,000
Inventory	245,000	205,700
Prepaid expenses	56,800	52,000
Total Assets	1,248,000	1,099,500
Equity		
Ordinary share capital - RM1 per share	440,000	350,000
Share premium	88,000	70,000
Retained earnings	188,900	210,900
	716,900	630,900

Continued ...

Non-current liabilities		
Bonds payable	254,100	292,000
Current liabilities		
Accounts payable	244,000	134,600
Income tax payable	33,000	42,000
Total liabilities	<u>531,100</u>	<u>468,600</u>
Total equity and liabilities	<u>1,248,000</u>	<u>1,099,500</u>

Additional information:

i. The detail of the property, plant and equipment is as follows:

	2017	2016
	RM	RM
Plant assets at cost	435,000	485,000
Less: Accumulated depreciation	<u>100,000</u>	<u>104,000</u>
Carrying amount	<u>335,000</u>	<u>381,000</u>

- ii. The old plant asset which original cost of RM115,000 and accumulated depreciation of RM97,000 was sold for RM3,000.
- iii. The company has issued 150,000 ordinary shares of RM1 each in exchanged for land with a fair value of RM150,000 during the year.
- iv. The company paid a cash dividend for 2017 amounting to RM15,000.

Required:

Prepare a statement of cash flows for the year ended 31 December 2017 in accordance with MFRS107 *Statement of Cash Flows* using indirect method.

(Total: 20 Marks)

Continued ...

QUESTION 2**Part A**

Nice Design Sdn Bhd invoiced Nini RM23,500 for its interior design services fee after completing the task in May 2018. Nini has paid an advanced payment to the company in March 2018 amounting to RM10,000. Nini settled the balance payment on 30 June 2018.

Required:

- i. Explain when the revenue should be recognized by Nice Design Sdn Bhd. (4 marks)
- ii. Discuss the criteria to be considered by Nice Design Sdn Bhd before recognizing the revenue from the sale of goods in accordance to MFRS118 *Revenue*. (5 marks)

Part B

Glade Bhd commenced construction of a high rise condominium in Cyberjaya on 1 June 2018. The project is expected to complete in 48 months. It was financed entirely by a 4 year term loan of RM20 million. The loan carried fixed interest at 15% per annum and issued cost of 2% of the loan value was incurred on the loan. During the year, Glade Bhd had earned RM72,000 from the temporary investment of these borrowings. The accounting year end for Glade Bhd is 31 December.

Required:

- i. Compute the amount of borrowing costs that should be capitalized by Glade Bhd of each qualifying asset. (3 marks)
- ii. Explain when Glade Bhd should commence the capitalization of borrowing cost in accordance with MFRS123 *Borrowing Costs*. (3 marks)

Part C

Grand Bhd is a large company involved in the construction industry in Malaysia. On 1 January 2017, Grand Bhd entered into a contract to build a luxury apartment for Damansara Bhd. The project is expected to take 24 months and therefore be completed on 31 December 2018. The contract price of the project is RM200,000,000 and the total estimated costs is RM140,000,000.

Continued ...

At 31 December 2017, the following data were available:

	RM
Variation to the contract price	10,000,000
Costs incurred to date	120,000,000
Estimated cost to complete	30,000,000
Contract billings	172,000,000
Cash received on billings	160,000,000

Grand Bhd recognized revenue using the percentage of completion method measured by the cost to date to total estimated costs.

Required:

- Compute the percentage of completion as at 31 December 2017. (2 marks)
- Prepare extract of the statement of profit and loss for the year ended 31 December 2017. (4 marks)
- Prepare the extract of the statement of financial position as at 31 December 2017. (5 marks)
- Explain another two methods that can be used by Grand Bhd to determine the stage of completion besides the cost to date to total estimated costs. (4 marks)

QUESTION 3

PART A

Agro Farm Bhd operates its cattle breeding business in Kuala Selangor since 2001. In expanding its business, the company purchased another 1,500 cattle from New Zealand on 1 January 2017. The cost of purchasing the cattle is RM600,000. It is estimated that the fair value of these cattle in the market as on 31 December 2017 is RM780,000. The company estimates that the commission to dealers is about RM39,000 if they decide to sell these cattle.

Required:

- Show the journal entry to record the purchase of cattle on 1 January 2017. (2 marks)

Continued ...

- ii. Compute how much should Agro Farm Bhd recognize the value of 1,500 cattle (biological asset) as at 31 December 2017? (4 marks)
- iii. Show the journal entry when Agro Farm Bhd recognize the value of the cattle as at 31 December 2017. (2 marks)

PART B

The R&D division of Horizon Discovery Bhd undertakes both research and development activities of the company. Its current development project on a prototype is near completion. The costs identified in this project consist of the following:

	RM
Costs of material used	7,500,000
Services of consultants used in the project	3,000,000
Fee to register a trade design	75,000
Amortization of patent used in the project	150,000
Selling and administrative overheads allocated	1,500,000
initial operating losses	750,000
Training cost to operate the asset	150,000
Total costs allocated	<u>13,125,000</u>

The other costs that relate to this project are the salaries of scientists and technicians amounting to RM1,800,000 and RM1,350,000 for depreciation of equipment used in the research and development activities. The financial manager of the company estimates that about one-third of both costs relate to the development project.

Required:

- i. Compute the cost of the development project that shall be capitalized by Horizon Discovery Bhd. (8 marks)
- ii. Explain four criteria that Horizon Discovery Bhd should meet when they want to capitalized the costs during the development phase in accordance with MFRS138 *Intangible Assets*. (4 marks)

Continued ...

PART C

Zamrud Bhd has acquired the following assets in January 2015.

	<u>Equipment</u>	<u>Building</u>
Cost	RM465,000	RM780,000
Estimated service life	5 years	30 years
Residual value	RM15,000	Nil

The equipment has been depreciated using the sum-of-digit method for the first 3 years for the financial reporting purposes. In 2018, the company decided to change the method of computing depreciation to the straight line method for the equipment, but no change was made in the estimated service life or residual value. It was also decided to change the total estimated service life of the building from 30 years to 40 years, with no change in the estimated residual value. The building is depreciated on the straight line method.

Required:

- Prepare the journal entry to record depreciation expense for the equipment in 2018. (5 marks)
- Prepare the journal entry to record depreciation expense for the building in 2018. (round to nearest RM) (5 marks)

(Total: 30 marks)

QUESTION 4

The Kola-Kola Bhd and Bepsi Bhd involve in producing refreshments to their customers in Asean region. The selected data from the 2017 consolidated financial statements for Kola-Kola Bhd and Bepsi Bhd are presented below:

	Kola-Kola RM	Bepsi RM
Total current assets	35,102,000	25,142,000
Total current liabilities	27,442,000	17,512,000
Net sales	61,980,000	86,464,000
Cost of goods sold	22,176,000	40,198,000
Net income	13,648,000	11,892,000
Average (net) accounts receivable for the year	6,848,000	9,308,000
Average inventories for the year	4,542,000	5,140,000
Average total assets	89,190,000	75,842,000
Average ordinary shareholders' equity	45,272,000	29,112,000
Average current liabilities	26,710,000	17,544,000

Continued ...

Average total liabilities	43,920,000	46,932,000
Total assets	97,342,000	79,696,000
Total liabilities	47,744,000	46,088,000
Income taxes	4,080,000	4,200,000
Interest expense	710,000	794,000
Net cash provided by operating activities	16,372,000	13,592,000
Capital expenditures	3,986,000	4,256,000
Cash dividends	7,600,000	5,464,000

Required:

a. Compute the following ratios for 2017 for Kola-Kola Bhd and Bepsi Bhd:

1. Profit margin
2. Return on assets
3. Return on ordinary shareholders' equity
4. Current ratio
5. Accounts receivable turnover
6. Inventory turnover
7. Debt to assets ratio
8. Times interest earned

(16 marks)

b. Interpret on the relative profitability, liquidity and solvency of the two competitors.

(4 marks)

(Total: 20 marks)

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